

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Robert G. Taub, Vice Chairman;
Mark Acton;
Tony Hammond; and
Nanci E. Langley

Annual Compliance Report, 2012

Docket No. ACR2012

NOTICE OF POSTAL SERVICE'S FILING OF ANNUAL COMPLIANCE REPORT
AND REQUEST FOR PUBLIC COMMENTS

(Issued January 2, 2013)

I. INTRODUCTION

On December 28, 2012, the United States Postal Service (Postal Service) filed with the Commission, pursuant to 39 U.S.C. 3652, its Annual Compliance Report (ACR) for fiscal year (FY) 2012.¹ Section 3652 requires submission of data and information on the costs, revenues, rates, and quality of service associated with postal products within 90 days of the closing of each fiscal year. In conformance with other statutory provisions and Commission rules, the ACR includes the Postal Service's FY 2012 Comprehensive Statement, its FY 2012 annual report to the Secretary of the Treasury on the Competitive Products Fund, and certain related Competitive Products Fund

¹ United States Postal Service FY 2012 Annual Compliance Report, December 28, 2012 (FY 2012 ACR). Public portions of the Postal Service's filing are available on the Commission's website at <http://www.prc.gov>.

material. See *respectively*, 39 U.S.C. 3652(g), 39 U.S.C. 2011(i), and 39 CFR 3060.20–23. In line with past practice, some of the material in the FY 2012 ACR appears in non-public annexes.

The filing begins a review process that results in an Annual Compliance Determination (ACD) issued by the Commission to determine whether Postal Service products offered during FY 2012 are in compliance with applicable title 39 requirements.

II. OVERVIEW OF THE POSTAL SERVICE'S FY 2012 ACR

Contents of the filing. The Postal Service's FY 2012 ACR consists of a 48-page narrative; extensive additional material appended as separate folders and identified in Attachment One; and an application for non-public treatment of certain materials, along with a supporting rationale filed as Attachment Two. The filing also includes the Comprehensive Statement, Report to the Secretary of the Treasury, and information on the Competitive Products Fund filed in response to Commission rules. This material has been filed electronically with the Commission, and some also has been filed in hard-copy form.

Scope of filing. The material appended to the narrative consists of: (1) domestic product costing material filed on an annual basis summarized in the Cost and Revenue Analysis (CRA); (2) comparable international costing material summarized in the International Cost and Revenue Analysis (ICRA); (3) worksharing-related cost studies; and (4) billing determinant information for both domestic and international mail. FY 2012 ACR at 2-3. Inclusion of these four data sets is consistent with the Postal Service's past ACR practices. As with past ACRs, the Postal Service has split certain materials into public and non-public versions. *Id.* at 3.

"Roadmap" document. A roadmap to the FY 2012 ACR appears as Library Reference USPS-FY12-9. This document provides brief descriptions of the materials submitted, as well as the flow of inputs and outputs among them; a discussion of differences in methodology relative to Commission methodologies in last year's ACD; a

list of special studies and a discussion of obsolescence, as required by Commission rule 3050.12. *Id.* at 3-4.

Methodology. The Postal Service states that it has adhered to the methodologies applied by the Commission in the FY 2011 ACD, except in instances where the Commission approved methodology changes subsequent to the FY 2011 ACD. Those changes are identified in the prefaces accompanying the appended folders. *Id.* at 4.

Proposals for which the Postal Service has filed to change analytical principles since the filing of the FY 2011 ACR are identified and summarized in a table. *Id.* at 4-5. Generally, with respect to proposed changes that were pending resolution as of the date of the filing, the Postal Service prepared two versions of the materials for its ACR. *Id.* at 5. The Postal Service states that it intends to file a petition to amend the rule governing proposals to change methodologies, and requests that the Commission file all of the models it has applied in preparing the FY 2012 ACD so that the Postal Service can ascertain that it has the most up-to-date models when it prepares the FY 2013 ACR. *Id.* at 6.

Market dominant product-by-product costs, revenues, and volumes. Comprehensive cost, revenue, and volume data for all market dominant products of general applicability are shown directly in the FY 2012 CRA or ICRA. *Id.* at 7.

The FY 2012 ACR includes a discussion by class of each market dominant product, including costs, revenues, and volumes, workshare discounts and passthroughs responsive to 39 U.S.C. 3652(b), and FY 2012 incentive programs. *Id.* at 7-32. In addition, in response to Order No. 1427,² the Postal Service also provides a schedule of future price increases for Standard Mail Flats. *Id.* at 15-19.

Market dominant negotiated service agreements. The FY 2012 ACR presents information on market dominant negotiated service agreements (NSAs). *Id.* at 32. Although there were two market dominant NSAs in effect for FY 2012, Discover

² Docket No. ACR2010, Order No. 1427, Order on Remand, August 9, 2012.

Financial Services and Valassis, 2012 mailings were only made under the Discover Financial Services NSA and no 2012 data are available for the Valassis NSA. Full information regarding the Discover Financial Services NSA appears in Library Reference USPS-FY12-30. *Id.*

Service performance. The Postal Service notes that the Commission issued rules on periodic reporting of service performance measurement and customer satisfaction in FY 2010. Responsive information appears in Library Reference USPS-FY12-29. *Id.* at 34. The Postal Service says it set aggressive on-time targets of 90 percent or above for all market dominant products and, overall, has been successful in continuously improving these scores. It asserts that its targets have already been met or exceeded for some products and in some districts, but says there are several instances where target scores have not yet been met at the national level. Specific reasons for these results are discussed in Library Reference USPS-FY12-29. *Id.* at 34.

Customer satisfaction. The FY 2012 ACR discusses the Postal Service's approach for measuring customer experience and satisfaction; describes the methodology; presents a table with survey results; and compares the results from FY 2011 to FY 2012. *Id.* at 35-36.

Competitive products. The FY 2012 ACR provides costs, revenues, and volumes for competitive products of general applicability in the FY 2012 CRA or ICRA. For competitive products not of general applicability, data are provided in non-public Library References USPS-FY12-NP2 and USPS-FY12-NP27. The FY 2012 ACR also addresses the competitive product pricing standards of 39 U.S.C. 3633. *Id.* at 38-43.

Market tests; nonpostal services. The Postal Service also addresses the four market dominant market tests conducted during FY 2012, the single competitive market test conducted during FY 2012, and nonpostal services. *Id.* at 44-46. With respect to the latter, it notes that on December 11, 2012, the Commission issued Order No. 1575 approving Mail Classification Schedule (MCS) descriptions and prices for nonpostal service products. The approved MCS includes 11 nonpostal service products, two of which are market dominant and nine of which are competitive. *Id.* at 45. It has provided

revenue, cost, and volume data for the two market dominant nonpostal service products. *Id.* at 45-46.

III. PROCEDURAL STEPS

Statutory requirements. Section 3653 of title 39 requires the Commission to provide interested persons with an opportunity to comment on the ACR and to appoint an officer of the Commission (Public Representative) to represent the interests of the general public. The Commission hereby solicits public comment on the Postal Service's FY 2012 ACR and on whether any rates or fees in effect during FY 2012 (for products individually or collectively) were not in compliance with applicable provisions of chapter 36 of title 39 (or regulations promulgated thereunder). Commenters addressing market dominant products are referred in particular to the applicable requirements (39 U.S.C. 3622(d) and (e) and 3626); objectives (39 U.S.C. 3622(b)); and factors (39 U.S.C. 3622(c)). Commenters addressing competitive products are referred to 39 U.S.C. 3633.

The Commission also invites public comment on the cost coverage matters the Postal Service addresses in its filing; service performance results; levels of customer satisfaction achieved; progress toward goals established in the annual Comprehensive Statement; and such other matters that may be relevant to the Commission's review. Comments on these topics will, *inter alia*, assist the Commission in developing appropriate recommendations to the Postal Service related to the protection or promotion of the public policy objectives of title 39.

Access to filing. The Commission has posted the publicly available portions of the FY 2012 ACR on its website at <http://www.prc.gov>.

Comment deadlines. Comments by interested persons are due on or before February 1, 2013. Reply comments are due on or before February 15, 2013. The Commission, upon completion of its review of the FY 2012 ACR, public comments, and other data and information submitted in this proceeding, will issue its ACD. Those needing assistance filing electronically may contact the Docket Section supervisor

at 202-789-6846 or via email at *prc-dockets@prc.gov*. Inquiries about access to non-public materials should also be directed to the Docket Section.

Public Representative. Kenneth E. Richardson is designated to serve as the Public Representative to represent the interests of the general public in this proceeding. Neither the Public Representative nor any additional persons assigned to assist him shall participate in or advise as to any Commission decision in this proceeding other than in their designated capacity.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. ACR2012 to consider matters raised by the United States Postal Service's FY 2012 Annual Compliance Report.
2. Pursuant to 35 U.S.C. 505, the Commission appoints Kenneth E. Richardson as an officer of the Commission (Public Representative) in this proceeding to represent the interests of the general public.
3. Comments on the United States Postal Service's FY 2012 Annual Compliance Report to the Commission, including the Comprehensive Statement of Postal Operations and other reports, are due on or before February 1, 2013.
4. Reply comments are due on or before February 15, 2013.
5. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary